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Federal Open Market Committee

Conference Call

February 1, 1991

PRESENT: Mr. Greenspan, Chairman
Mr. Corrigan, Vice Chairman
Mr. Black
Mr. Forrestal
Mr. Keehn
Mr. Kelley
Mr. LaWare
Mr. Mullins
Mr. Parry
Ms. Seger

Messrs. Guffey, Hoskins, Melzer, and Syron,
Alternate Members of the Federal Open Market
Committee

Messrs. Boehne, McTeer, and Stern, Presidents of
the Federal Reserve Banks of Philadelphia,
Dallas, and Minneapolis, respectively

Mr. Kohn, Secretary and Economist
Mr. Bernard, Assistant Secretary
Mr. Gillum, Deputy Assistant Secretary
Mr. Prell, Economist

Messrs. Lindsey, Promisel, Siegman, and Simpson,
Associate Economists

Mr. Sternlight, Manager for Domestic Operations,
System Open Market Account
Mr. Cross, Manager for Foreign Operations,
System Open Market Account

Messrs. Coyne and Winn, Assistants to the Board,
Office of Board Members, Board of Governors
Mr. Wiles, Secretary of the Board, Office of the
Secretary, Board of Governors
Mr. Ettin, Deputy Director, Division of Research
and Statistics, Board of Governors
Mr. Stockton, Associate Director, Division of
Research and Statistics, Board of Governors
Mr. Moore, Special Assistant to the Board, Office
of Board Members, Board of Governors
Ms. Johnson, Assistant Secretary, Office of the
Secretary, Board of Governors
Ms. Low, Open Market Secretariat Assistant,
Division of Monetary Affairs, Board of
Governors

Mr. Oltman, First Vice President, Federal Reserve
Banks of New York

Mr. Rosenblum, Senior Vice President, Federal
Reserve Bank of Dallas

Transcript of Telephone Conference Call of
February 1, 1991

CHAIRMAN GREENSPAN. [I would like to inform you of an announcement the Board plans to make this morning. The press release] draft in tentative form would read "The Federal Reserve Board today announced a reduction in the discount rate from 6-1/2 to 6 percent effective on Monday, February 4th. This action was taken in light of further declines in economic activity, continued sluggish growth trends in money and credit, and evidence of abating inflationary pressures, including weakness in commodity prices. In taking the action the Board voted on requests submitted by boards of directors of the Federal Reserve Banks of..." And there are now seven banks who have made that request.

The data [released] this morning, as you all know, are quite weak. And the Purchasing Managers' report, which is not yet released but will be out later today, is exceptionally weak for the month of January. We basically decided that the numbers are really unequivocal and, even though we are as close as we are to an FOMC meeting, with five votes here--and Governor Angell would have voted for this were he here, but he is in Davos at the moment--it was thought that it would be better to get this behind us and out of the way and to discuss [at the FOMC meeting] on Tuesday more general issues and what future policy should be. I have no further statement. Does anyone here at the Board wish to make any statement?

We are planning to give instructions to the Desk to allow the 50 basis point [reduction] to pass through to the funds rate. Are there any questions or comments either to me, my colleagues, or to the staff, who are sitting here with lots of data?

MS. SEGER. I have a question on the revision of key December employment numbers. Do you know where exactly they lost those additional bodies?

MR. PRELL. I have been sitting here trying to sift through some of these [numbers].

MS. SEGER. Oh, I'm sorry.

MR. PRELL. I can try to give you that answer in just [a moment].

CHAIRMAN GREENSPAN. There was a doubling of the employment decline for the month of December and part of it is in manufacturing.

MR. PRELL. Yes, but I think that was only about 10,000. Let me see whether government was revised. There was a significant downward revision in government employment, I believe.

VICE CHAIRMAN CORRIGAN. Alan, while Mike Prell is looking for that: When are you planning to announce this?

CHAIRMAN GREENSPAN. At 9:15 a.m., prior to the opening of the stock exchange.

VICE CHAIRMAN CORRIGAN. Okay, good.

CHAIRMAN GREENSPAN. Any further questions?

VICE CHAIRMAN CORRIGAN. This is highly technical and I don't mean it to sound that way, but if you're going to announce it at 9:15 a. m., why isn't it effective today as opposed to Monday?

MR. COYNE. We can make it effective today if you want.

CHAIRMAN GREENSPAN. Jerry, it is now effective today.

MS. SEGER. Friday, February 1.

VICE CHAIRMAN CORRIGAN. Do I get a bonus as Vice Chairman?
[Laughter]

MR. MELZER. Alan, this is Tom Melzer. I don't know whether you would consider this a technical point or not, but on the decision to let it pass through to the funds rate: Should that be an action taken by the FOMC?

CHAIRMAN GREENSPAN. Technically, since our directive [has language] with respect to pressures on the market ["taking account of a possible change in] the discount rate," as I understand it, this does not require FOMC action at this stage.

MR. SYRON. Mr. Chairman, this is Dick Syron. I'm not at all uncomfortable with what you have done; it's absolutely the right thing. But I would just ask a question on procedural grounds. In terms of the perception of the market in the future when things are disclosed, I wonder whether you might want to have this be an official meeting of the Committee and have a formal vote of the Committee as a whole on what some would interpret as the second [intermeeting] reduction in the funds rate.

CHAIRMAN GREENSPAN. I would much prefer that that perhaps be done at the FOMC meeting itself, if we're going to do that, because it muddles the actions.

MR. SYRON. I'm sorry; I guess I didn't understand when the 50 basis points would show through to the funds rate. Is it going to show through to the funds rate today?

MR. KOHN. Yes.

CHAIRMAN GREENSPAN. [Yes,] if one can determine that, given the volatility we've been seeing. I would say the only way that could be inferred at this point would be from the language in the announcement itself.

MR. KOHN. Dick, this is Don Kohn. My interpretation, looking back on how we've treated these things at least over the last 15 years or so, was that the default mode, so to speak, has been that unless something else is done, the discount rates tends to show through pretty much point-for-point to the funds rate. Now, that was maybe an easier argument to see when we were really targeting on borrowing; but even targeting on borrowing, in my view, was an indirect way of getting at the funds rate. So, my advice to the Chairman has been that a pass-through was consistent with history--or

at least consistent with the way the Committee and the Board have behaved relative to one another over the last 15 years or so.

MR. SYRON. Don't get me wrong; I don't have any problem at all with what is being done. I am thinking [about this] in a perception sense. And I must say that I'm thinking about the perception in relation to the stories that were in the press early last month, which I thought were counterproductive, to the effect that there was a schism within the Committee and that the presidents at least were dragging their feet in terms of moving [rates] down. In the sense of erasing any of that notion, it's clearly your judgment and the Chairman's in terms of how you think the markets will react to this. But I'm just wondering if erasing that notion by having a vote might be worth considering.

CHAIRMAN GREENSPAN. I would just as soon not, Dick. We're taking a fairly abrupt action at this stage. Anything we do to heighten it would suggest that we think there's more there than in fact we're doing. If that appears to be desirable, I think we can do it at the meeting.

MR. SYRON. Okay, thank you.

MR. PRELL. Mr. Chairman, could I just correct an impression I may have left earlier in answer to Governor Seger's question? There were downward revisions in the changes from November to December in just about every category; it's very widespread.

CHAIRMAN GREENSPAN. Any further questions or comments? If not, we look forward to seeing you at the meeting.

END OF SESSION